

What are Indirect Costs?

Indirect costs (also known as facilities and administrative-F&A or overhead costs) are costs that are incurred by PSU for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. Indirect costs support the administrative and infrastructural needs necessary to support externally funded research and non-research activities. PSU allocates indirect costs to the administrative areas of the university that support research in some important way. They include, but are not limited to, the costs of providing:

- Use of offices, labs, classrooms, conference rooms, and other facilities belonging to PSU;
- Related building and grounds maintenance and utilities;
- Use of campus and departmental libraries and electronic depositories;
- Centralized and departmental grants and contracts administration; and
- Research compliance functions (e.g. training, process management, protection of human and animal subjects, environmental health and safety, etc.).

The Office of Research Administration and Compliance (ORAC) reviews proposals to ensure appropriate indirect cost rates are applied.

What is an indirect cost rate?

The indirect cost rate is the method used by the federal government to reimburse PSU and other research institutions for use of their facilities and administrative services to support federally funded projects and other sponsored activities. The actual rates are calculated in accordance with federal regulations and guidelines.

How is PSU's indirect cost rate determined?

The university indirect cost rate (facilities and administrative or F&A) is negotiated approximately every 3 to 5 years with the federal government through its "cognizant agency." The federal cognizant agency for PSU is the U.S. Department of Health and Human Services (HHS). Our proposed rate is based on the "Simplified Method". The Controller's Office compiles the rate proposal package based on the university's most recent annual financial statements in accordance with cost principles provided by OMB Circular.

When the negotiation is complete and an agreed upon rate is attained, HHS sends the signed rate agreement to the university Vice President for Business, Finance and Facilities (VP-BFF). At that time the rate is communicated to the PSU community and must be used in budget proposals for federally funded projects that include salaries and fringe benefits.

What is the current indirect cost rate for PSU?

PSU's current federally established indirect cost rate is 47% of salaries and fringe benefits charged against a grant, contract or research agreement. Overall, the cost of doing research at PSU is greater than 47%. However, due to caps on administrative cost recovery and facilities costs negotiated down by HHS, PSU is only able to recover a portion of the costs of doing research. This is why voluntary indirect

cost rate reductions or waivers (reductions not required by an agency) must be approved in writing by the VP-BFF.

Some funding opportunities establish other limits or allow different indirect cost rates. For example, a federal training grant will cap indirect costs at 8% of modified total direct costs (i.e. all direct costs with the exception of certain pre-excluded categories, e.g. participant costs and equipment); some foundations will prohibit any indirect costs, or limit them to a nominal amount, like 10-15%. These limits and restrictions will vary from one sponsor to another, so it is important to check the funding opportunity announcement very carefully in each case.

As a general matter, however, the university seeks to recover as much indirect cost as possible, within the framework of our federally-established indirect cost rate or what the sponsor will otherwise allow. For this reason, we will not unilaterally waive indirect costs without a compelling reason, and without the specific and appropriate approval of the VP-BFF. The waiver of any portion of eligible indirect cost recoveries must be approved in writing and in advance by the VP-BFF with input and recommendations from ORAC.

Do indirect cost rates apply to non-federal awards?

Yes. However, it is up to PSU to determine whether and how the federal rate applies to non-federal awards or if other rates apply. Contact ORAC for determination.

If a sponsor won't agree to the PSU indirect cost rate, can I accept a lower rate for my project?

It is PSU policy to recover the full indirect costs allowed. In the case of a non-profit sponsor (foundation, state or federal agency) with a published or otherwise well-documented policy on reduced indirect cost rate, the university will accept the lower rate. Provide written documentation of the sponsor's rate restriction when you submit your Proposal Approval Form to ORAC.

In the case of a for-profit sponsor that will not agree to the university's negotiated rate, the reduced rate must be approved in writing by the VP-BFF. Attach justification and VP-BFF approval for the reduced indirect cost rate to the Proposal Approval Form. By reducing the indirect cost for any project, the university is providing a subsidy of that project. Reductions in indirect cost for projects funded by for-profit organizations will be granted only in extraordinary circumstances.

Will a high indirect cost rate undermine the competitiveness of my proposal?

It is uncommon for the indirect costs included in a proposal budget to be a consideration in the decision to fund a project. Also, the indirect cost rate at PSU is lower than the rates at many comparable universities.

How are indirect costs calculated in a proposal?

Indirect costs are calculated on the salaries, wages and fringe benefits included in the proposal. Fringe benefits are costs tied to salaries that pay for things like health insurance, unemployment insurance, life insurance, worker's compensation, disability insurance, retirement and FICA. Different categories of employees are associated with varying levels of fringe benefit coverage. Additionally, employees may be paid based upon varying contract lengths (e.g. 12-month, 10-month, 9-month). During the summer,

faculty will be compensated at a rate of 2/10 of their annual salary for full-time employment and for part-time employment at a fraction of 2/10 of their annual salary proportional to the fraction of full-time summer employment.

Once individual salaries are determined (this could be monthly or bi-monthly), use the Fringe Benefits Charts from the Budget Office website found [here](#). The Fringe Benefits Rate Chart shows current year and next year's fringe benefit rates for PSU's different positions. The Fringe Calculator Chart is a fringe calculator with tabs relating to the different positions at PSU.

ORAC ensures the correct fringe benefit rate is applied in proposals to each person who will work on and will be paid from external funding.